

BROWN CITY COMMUNITY SCHOOLS
BROWN CITY, MICHIGAN

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and
additional information)
June 30, 2005

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ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

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August 19, 2005

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Brown City Community Schools
Brown City, Michigan 48416

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown City Community Schools as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Brown City Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Brown City Community Schools as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005, on our consideration of Brown City Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages *i* through *ix* and page 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion it.

Board of Education
Brown City Community Schools
August 19, 2005

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Brown City Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Brown City Community Schools has implemented Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. Our discussion and analysis of Brown City Community Schools' financial performance, a GASB 34 requirement, provides an overview of the School District's financial activities for the fiscal year ended June 30, 2005.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June, 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. .

FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's *net assets* – the difference between assets and liabilities, as reported in the Statement of Net Assets, is one way to measure the School District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets, as reported in the Statement of Activities, is one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School District's *operating results*. However, the School District's goal is to provide services to its students, not to generate profits as commercial entities do. Many other non-financial factors, such as the quality of the education provided and the safety of the schools, must also be considered when assessing the *overall health* of the School District.

The School District's net assets totaled \$1,276,046 and \$1,197,880 at June 30, 2005 and 2004, respectfully. Of these amounts, \$325,629 and \$330,429 were restricted. Restricted net assets are reported separately to show legal constraints for debt covenants and legislation that limits the School District's ability to use those net assets for day-to-day operations. The following is a summary of the District's net assets at June 30, 2005 and 2004:

**BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Assets	2005	2004
Current assets	\$ 4,034,561	\$ 3,612,951
Capital assets net of depreciation	<u>13,918,592</u>	<u>14,355,409</u>
Total assets	<u>\$ 17,953,153</u>	<u>\$17,968,360</u>
Liabilities		
Current liabilities	\$ 2,558,745	\$ 2,204,929
Long-term liabilities	<u>14,118,362</u>	<u>14,565,551</u>
Total liabilities	<u>16,677,107</u>	<u>16,770,480</u>
Net Assets		
Invested in capital assets, net of related debt	(518,354)	(307,921)
Restricted for capital projects		
Restricted for debt service	325,629	330,429
Unrestricted	<u>1,468,771</u>	<u>1,175,372</u>
Total net assets	<u>1,276,046</u>	<u>1,197,880</u>
Total liabilities and net assets	<u>\$17,953,153</u>	<u>\$17,968,360</u>

The \$1,468,771 in unrestricted net assets of governmental activities represents District funds that have not been committed contractually or for debt obligations and are available for future use.

Total net assets increased approximately \$78,166.00 in 2004-05. The major components of the increase in net fixed assets are as follows:

- Capital acquisitions

Capital outlay for the year ended June 30, 2005 totaled \$65,575.

- Depreciation expense

The provisions of GASB 34 require districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net assets. Depreciation expense is recorded using a straight-line method over the estimated useful lives of the assets. In accordance with generally accepted accounting principals, depreciation expense is recorded based on the original cost of the asset less an estimated salvage value. For the year ended June 30, 2005 the net increase in accumulated depreciation was \$502,392.

BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

- Debt repayment

Repayment of debt decreases the District's long-term principal obligations and, as a result, the net assets of the district increase. The District repaid \$226,384 of long-term debt in the current fiscal year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities. A summary of the District-wide results of operations for the year ended June 30, 2005 is as follows:

	2005	2004
General revenue		
Property taxes levied for general operations	\$ 401,486	\$ 378,650
State of Michigan aid, unrestricted	7,599,495	7,849,461
Property Taxes levied for debt service	706,102	665,688
Other – federal, state and local	<u>147,330</u>	<u>167,153</u>
Total general revenue	8,854,413	9,060,952
Program revenue		
Charges for services – local	294,860	295,184
Operating grants – federal and state	<u>576,233</u>	<u>581,901</u>
Total revenues	9,725,506	9,938,037
Expenses		
Instruction	4,430,357	4,294,334
Support services	3,369,671	3,438,130
Community services	40,116	88,224
Food services	452,788	466,349
Fees		11
Athletics	201,250	192,751
Interest on long-term debt	650,766	656,056
Depreciation (unallocated)	<u>502,392</u>	<u>562,496</u>
Total expenses	9,647,340	9,698,351
Increase in net assets	78,166	239,686
Net assets – July 1	<u>1,197,880</u>	<u>958,194</u>
Net assets – June 30	1,276,046	1,197,880

BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

GOVERNMENTAL FUNDS FINANCIAL HIGHLIGHTS

The financial condition of the governmental funds remains steady as indicated by the combined fund balance of \$2,051,839 in 2004-05, compared to \$1,792,630 in 2003-04.

In the General Fund, our principle operating fund, the fund balance increased \$248,245. Our Special Revenue Funds experienced a good year, showing a net \$15,764 increase in fund balance.

As budgeted, the Debt Service Fund experienced a decrease in fund balance of \$4800. For the 2004-2005 fiscal year, the Debt Service Fund millage rate remained the same at 5.9980 mills. Millage rates are determined annually to ensure the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Fund balances are reserved since they can only be used to pay debt service obligations.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The School District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, before student enrollment counts are known. Therefore, it is expected that there will be changes between the initial budget and subsequent budgets, as actual enrollments, actual State Aid per pupil and staffing changes are known. Currently, the most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2005, the School District amended the budget of this major governmental fund three times.

General Fund

In the general fund, the actual revenue was \$8.462 million. This is below the original budget estimate of \$8.853 million and slightly above the final amended budgeted amount of \$8.416 million, a variance of 0.05 %.

The actual expenditures of the general fund were \$7.713 million. This is below the original budget estimate of \$8.189 million and the final amended budgeted amount of \$7.817 million. The variances between the actual General Fund expenditures and the original and final expenditure budgets include the following:

- a reduction in discretionary spending resulting from the spending reductions implemented during the year when there was a concern that the State of Michigan would not give the school district an increase in per pupil funding for the coming school year.

A schedule of statements showing the School District's original and final budget amounts compared with amounts actually paid and received.

General Fund revenues totaled \$8,462,383 and total expenditures \$7,713,735 for the year. The fund balance was \$1,667,544 at June 30, 2005.

**BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

GOVERNMENTAL FUND EXPENDITURES

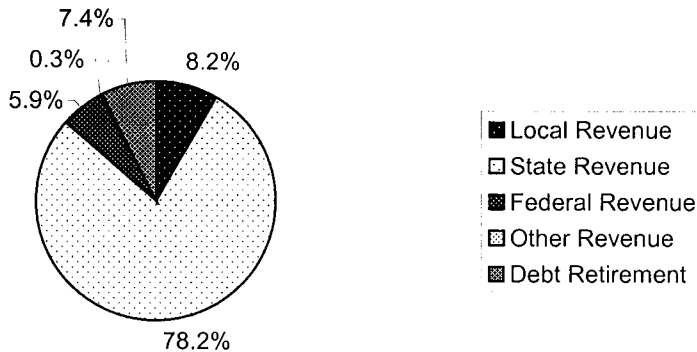
The following chart illustrates that general fund comprises 85% of all the expenditures within the governmental funds of the School District. As of June 30, 2005 expenditures totaled \$9.084 million for all District programs. The ending fund balance for all funds was equal to \$2,051,839.

	June 30, 2005	% of TOTAL
General Fund	\$ 7,713,735	85.00%
Special Revenue Fund	654,038	7.00%
Debt Retirement Fund	717,085	8.00%
Total	\$ 9,084,858	100.00%

TOTAL REVENUES

Revenues for all governmental funds totaled \$9.716 million. The following graph illustrates the District revenues by source as a percentage of total revenue:

Revenue by Sources



Unrestricted State Aid

The district is predominately funded by State Aid, which has remained as the same level for the last three school years, except for the 2003-04 school year when a \$74 per pupil reduction was mandated during the school year. However, for the 2004-05 fiscal year, the State brought the level of funding back to \$6,700 per pupil. State Aid membership was 1143.87 and 1192.23 in 2004-05 and 2003-04, respectively. The state per-pupil allocation for 2004-05 was \$6,700 and \$6,700 in 2003-04.

BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Property Taxes

The District was only able to levy 17.2473 mills, of the originally voted 18.0 mills, of property taxes on all Non-Homestead property located within the district for General Fund operations during the 2004-05 school year. This millage rate was down from the 17.5581 that the district levied in the 2003-04 school year. The levy is assessed on the taxable value of the property. The increase in taxable value is limited to the lesser of the inflation rate of the prior year or 5%. When a property is sold, the taxable valuation of the sold property is readjusted to the State Equalized Value, which is approximately 50% of market value. The 2004-05 Non-Homestead property tax levy totaled approximately \$401,486.

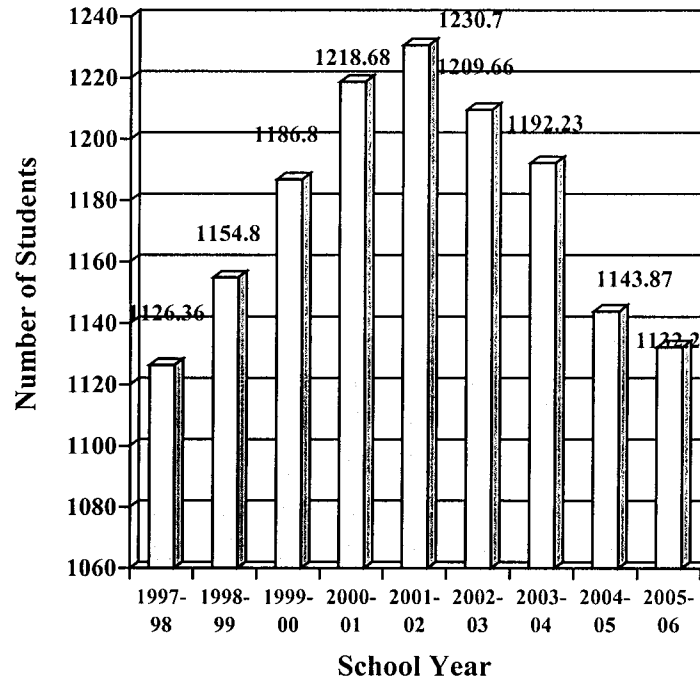
The District levies 5.9980 mills of property taxes on all classes of property located within the district for bonded debt retirement. This levy is not subject to rollback provisions and is used to pay the principal and interest on bond obligations. The total amount levied for debt retirement in the 2004-05 year was \$702,974.

ENROLLMENT

The enrollment of Brown City Community Schools totaled 1143.87 students in 2004-05. This is a decrease in enrollment of 48.36 students from the 2003-04 year. The School District is located in Sanilac, Lapeer and St. Clair Counties and is considered a rural community. The School District's enrollment includes students K-12 and Alternative High School students, located in learning centers in Brown City, Croswell and the Sanilac County Career Center.

BROWN CITY COMMUNITY SCHOOLS MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Enrollment over the last eight years, plus a 2005-06 projection is illustrated as follows:



Enrollment is important to the financial health of the School District because State funding is based on a per-pupil formula. For the fiscal year ended June 30, 2005, the gross per-pupil allowance was \$6,700.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the School District had \$17.7 million invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$3.8 million has been depreciated. Net book value totals \$13.9 million. The district's buildings range in years of construction from 1954 to 2001. The majority of the buildings were either constructed or remodeled during the 2001 Bond Issue. The district is committed to the timely repairs and maintenance of its facilities. Computer purchases are under the District's capitalization threshold of \$5,000 and are expensed accordingly.

BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Governmental <u>Activities</u>
Land and Improvements	\$ 874,878
Buildings and Additions	14,586,307
Machinery and Equipment	1,481,410
Vehicles & Buses	794,405
 Total	 <u>\$ 17,737,000</u>

Debt

OUTSTANDING DEBT AT YEAR-END

At June 30, 2005, the School District had \$14.37 million in bonds outstanding as compared to \$14.54 million at the end of the previous year. The bonds outstanding consisted of the following:

Limited Tax General Obligation Bond	\$ 1,505,000
Durant Issue	\$ 55,873
Building and Site Bonds	\$ 12,810,000

It needs to be noted the Durant Issue is a legal obligation of the School District, but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payment. If the legislature fails to appropriate for these bonds, the School District is under no obligation for payment. The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating.

In addition to the above bonds, the School District had a balance of \$66,073 in installment contracts payable at June 30, 2005. The balance at the end of the previous year was \$119,360. Installment contracts payable at June 30, 2005, consisted of the following:

Bus Contract Payable	\$ 66,073
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State statutes limit the amount of debt schools can issue. The School District's outstanding voted bond debt of \$12.8 million and installment contract debt of \$66,073 are under the statutorily imposed limits.

**BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

For more detailed information regarding capital assets and debt administration, please review the Notes to the Basic Financial Statements located in the financial section of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The School District's revenue is heavily dependent on enrollment, State funding, and thus, the health of the State's School Aid Fund. The State periodically holds revenue consensus conferences to estimate its revenues. Based on the results of these conferences, the State determines whether they have sufficient funds to meet the \$6,875 per student allocation that they have indicated that they will fund for the 2005-06 school year. It is because of the uncertainty of the funding level, that the district chose to budget the per pupil allocation at \$6,800.

The State's current blending formula (25% February 2005 count and 75% September 2005 count) is the same formula that was used in the 2004-05 school year. The district's blended count is projected to be down 11.10 from the 2004-05 school year.

In addition, the district has unsettled compensation packages with the two labor union contracts and with several other non-union employees.

The 2004-05 budget, as originally adopted, included an excess of expenditures over revenue of \$362,771, which would have reduced the District's fund equity. During the school year the District reduced elective spending as much as possible, to help reduce that projected excess in expenditures over revenue. Even if the State revenues improve, future budget reductions may be required to handle the increasing costs, such as health insurance, State mandated retirement contributions and the ever increasing costs of fuel and the utilities.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of Brown City Community Schools. If you should desire additional detailed financial program audits, they can be obtained by contacting the following person:

Janet E. Stimson, Business Manager
Brown City Community Schools
4349 Second St. P.O. Box 160, Brown City, MI 48416-0160
Telephone – 810-346-2781 Fax – 810-346-3762
Email – jstimson@bc.k12.mi.us

BASIC FINANCIAL STATEMENTS

BROWN CITY COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2005

	ASSETS	GOVERNMENTAL ACTIVITIES
CURRENT ASSETS:		
Cash		\$ 2,129,928
Accounts receivable		6,534
Property taxes receivable		15,590
Due from Agency funds		3,161
Due from other governmental units		1,445,317
Inventory		7,679
Investments		399,352
Prepaid expenses		<u>27,000</u>
TOTAL CURRENT ASSETS		<u>4,034,561</u>
NONCURRENT ASSETS:		
Capital assets		17,737,000
Less accumulated depreciation		<u>(3,818,408)</u>
TOTAL NONCURRENT ASSETS		<u>13,918,592</u>
TOTAL ASSETS		<u><u>\$ 17,953,153</u></u>
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:		
Accounts payable		\$ 55,209
Notes payable		1,500,000
Accrued interest		153,985
Accrued payroll taxes		120,080
Salaries payable		254,343
Deferred revenue		-
Current portion of long term debt		438,998
Current portion of compensated absences		<u>36,130</u>
TOTAL CURRENT LIABILITIES		<u>2,558,745</u>
NONCURRENT LIABILITIES:		
Noncurrent portion of long term debt		13,997,948
Noncurrent portion of compensated absences		<u>120,414</u>
TOTAL NONCURRENT LIABILITIES		<u>14,118,362</u>
NET ASSETS:		
Invested in capital assets, net of related debt		(518,354)
Restricted for debt service		325,629
Unrestricted		<u>1,468,771</u>
TOTAL NET ASSETS		<u>1,276,046</u>
TOTAL LIABILITIES AND NET ASSETS		<u><u>\$ 17,953,153</u></u>

The accompanying notes are an integral part of the financial statements.

BROWN CITY COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES

June 30, 2005

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$4,430,357	\$ 60,350	\$253,911	\$ (4,116,096)
Support services	3,369,671		108,819	(3,260,852)
Community services	40,116			(40,116)
Food services	452,788	225,947	213,503	(13,338)
Athletics	201,250	68,913		(132,337)
Fees	-			-
Interest on long-term debt	650,766			(650,766)
Unallocated depreciation	502,392			(502,392)
Total governmental activities	<u>\$9,647,340</u>	<u>\$ 355,210</u>	<u>\$576,233</u>	(8,715,897)
General revenues:				
Property taxes, levied for general purposes				401,486
Property taxes, levied for debt service				706,102
State of Michigan school aid unrestricted				7,599,495
Investment revenue				55,771
Transfers from other districts				3,092
Sale of school property				250
Miscellaneous				27,867
Total general revenue				<u>8,794,063</u>
Change in net assets				78,166
Net assets, beginning of year				<u>1,197,880</u>
Net assets, end of year				<u>\$ 1,276,046</u>

The accompanying notes are an integral part of the financial statements.

BROWN CITY COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	GENERAL FUND	DEBT RETIREMENT	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash	\$ 1,763,309	\$ 325,629	\$ 40,990	\$ 2,129,928
Accounts receivable	6,534		-	6,534
Due from other funds	3,161		336	3,497
Due from other governmental units	1,432,803		12,514	1,445,317
Inventory			7,679	7,679
Investments	399,352			399,352
Prepaid expenses	27,000			27,000
TOTAL ASSETS	<u>\$ 3,632,159</u>	<u>\$ 325,629</u>	<u>\$ 61,519</u>	<u>\$ 4,019,307</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
LIABILITIES:				
Accounts payable	\$ 54,898		\$ 311	\$ 55,209
Notes payable	1,500,000			1,500,000
Interest payable	37,500			37,500
Due to other funds	252		84	336
Accrued payroll taxes	120,080			120,080
Salaries payable	251,885		2,458	254,343
Deferred revenue	-			-
TOTAL LIABILITIES	<u>1,964,615</u>	<u>-</u>	<u>2,853</u>	<u>1,967,468</u>
FUND BALANCE:				
Unreserved				
Designated for compensated absences	156,544			156,544
Designated for QZAB	399,352			399,352
Designated for insurance	27,000			27,000
Designated for building improvements	10,000			10,000
Undesignated	1,074,648		58,666	1,133,314
Reserved for debt service		\$ 325,629		325,629
Reserved for capital projects			-	-
TOTAL FUND BALANCE	<u>1,667,544</u>	<u>325,629</u>	<u>58,666</u>	<u>2,051,839</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 3,632,159</u>	<u>\$ 325,629</u>	<u>\$ 61,519</u>	<u>\$ 4,019,307</u>

The accompanying notes are an integral part of the financial statements.

BROWN CITY COMMUNITY SCHOOLS
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2005

Total fund balances--governmental funds **\$ 2,051,839**

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not
financial resources and are not reported in the funds

The cost of the capital assets is: 17,737,000
Accumulated depreciation is: (3,818,408)

Long term liabilities are not due and payable in the current
period and are not reported in the funds

Bonds payable: (14,436,946)
Compensated absences: (156,544)
Accrued interest is not included as a liability in govern-
mental funds; it is recorded when paid: (116,485)

Balance of taxes receivable at 6/30/05 less allowance for doubtful
accounts, expected to be collected after September 1, 2005

15,590

Net Assets of Governmental Activities

\$ 1,276,046

The accompanying notes are an integral part of the financial statements.

BROWN CITY COMMUNITY SCHOOLS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2005

	GENERAL FUND	DEBT RETIREMENT	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Local sources	\$ 504,001	\$ 712,285	\$ 294,860	\$ 1,511,146
State sources	7,566,056		33,439	7,599,495
Federal sources	362,730		213,503	576,233
Other transactions:				
Transfers from other districts	3,092			3,092
Sale of school property	250			250
Refund of prior years expenditures	7,955			7,955
Insurance reimbursement	-			-
Miscellaneous	18,299			18,299
TOTAL REVENUES	8,462,383	712,285	541,802	9,716,470
EXPENDITURES:				
Instruction	4,341,871			4,341,871
Supporting services	3,331,748			3,331,748
Community services	40,116			40,116
School activities			654,038	654,038
Fees			-	-
Debt service:				
Principal retirement		70,000		70,000
Interest and fiscal charges		647,085		647,085
TOTAL EXPENDITURES	7,713,735	717,085	654,038	9,084,858
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	748,648	(4,800)	(112,236)	631,612
OTHER FINANCING SOURCES (USES):				
Payment on loans	(156,379)			(156,379)
Site services	(20,845)			(20,845)
Payments to other schools	(195,179)			(195,179)
Transfers from other funds	5,000		133,000	138,000
Transfers to other funds	(133,000)		(5,000)	(138,000)
TOTAL OTHER FINANCING SOURCES (USES)	(500,403)	-	128,000	(372,403)
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	248,245	(4,800)	15,764	259,209
FUND BALANCE - BEGINNING OF YEAR	1,419,299	330,429	42,902	1,792,630
FUND BALANCE - END OF YEAR	<u>\$1,667,544</u>	<u>\$ 325,629</u>	<u>\$ 58,666</u>	<u>\$ 2,051,839</u>

The accompanying notes are an integral part of the financial statements.

BROWN CITY COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2005

Total net change in fund balances--governmental funds **\$ 259,209**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(502,392)
Capital outlay	65,575

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	112,799
Accrued interest payable at the end of the year	(116,485)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	226,384
--	---------

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Accrued revenue at the beginning of the year	(6,554)
Accrued revenue at the end of the year	15,590

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued absences at the beginning of the year	180,584
Accrued absences at the end of the year	(156,544)

Change in net assets of governmental activities	<u>\$ 78,166</u>
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The accompanying notes are an integral part of the financial statements.

BROWN CITY COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash	\$ 83,122
TOTAL ASSETS	<u>\$ 83,122</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
LIABILITIES:	
Due to other funds	\$ 3,161
Due to student organizations	79,961
TOTAL LIABILITIES	<u>\$ 83,122</u>
 FUND BALANCE:	<u> </u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 83,122</u>

The accompanying notes are an integral part of the financial statements.

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The basic financial statements of the Brown City Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, except as described in Note 1. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

REPORTING ENTITY:

The Brown City Community Schools (the "District") is governed by the Brown City Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued):

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

GOVERNMENTAL FUNDS

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

OTHER NON-MAJOR FUNDS

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:

Accrual Method:

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method:

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION (CONTINUED):

Modified Accrual Method (Continued):

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue:

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005 the foundation allowance was based on the pupil membership counts taken in February and September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October, 2004 - August, 2005. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are recorded as deferred revenue.

ASSETS, LIABILITIES AND EQUITY:

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value and determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

ASSETS, LIABILITIES AND EQUITY (CONTINUED):

2. Short-term Interfund Receivables/Payables.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

3. Property Taxes.

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year.

The actual due date is September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2005, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund – Non Homestead	17.2473
Debt Service Funds - Homestead and non-homestead	5.998

4. Inventories and Prepaid Items.

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the special revenue fund consisting of expendable supplies held for consumption are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

5. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

6. Capital Assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

ASSETS, LIABILITIES AND EQUITY (Continued):

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000. Group purchases are evaluated on a case-by-case basis.

7. Deferred Revenues.

The unexpended balance of various federal and/or state categorical grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred. Other monies collected in advance are also deferred.

8. Compensated Absences.

The District's policies generally provide for granting vacation and sick leave with pay. It is the policy of the District that upon the death or retirement or layoff of a teacher from the district, the Board shall pay to the teacher with a minimum of seven years of service, or his/her estate, with at least thirty sick days accumulated shall receive \$30 for each unused accumulated sick day. The maximum days accumulated will be equal to the number of teaching days per school year.

9. Unemployment Insurance.

The District reimburses the State of Michigan Bureau of Worker's & Unemployment Compensation (BW&UC) for the actual amount of unemployment benefits disbursed by the BW&UC on behalf of the District. Billings received for amounts paid by the BW&UC through June 30 are accrued if material.

10. Long-term obligations.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

11. Fund Balance.

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of net current assets does not constitute "available spendable resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

ASSETS, LIABILITIES AND EQUITY (Continued):

12. Use of Estimates.

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances - budget and actual - general, special revenue and debt service funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances on the combined statement of revenues, expenditures and changes in fund balances - budget and actual (GAAP Basis) - general, special revenue and debt service funds.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue and debt service fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30.

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2005

NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK:

Cash and cash equivalents are held separately in the name of the district by each of the district's funds.

As of June 30, 2005, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
Guaranteed Investment Contract (GIC)	399,352	0.0027	A-1+	
Total fair value	<u>\$ 399,352</u>			100.0%
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At year-end the carrying amount of the District's deposits were \$2,213,050 and the bank balance was \$2,287,728 of which \$200,000 was covered by federal depository insurance and \$2,087,728 was uninsured and uncollateralized. The District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the District, subject to minimal risk.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

The District's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the Note Payable Disclosed in Note 4 (QZAB Bonds).

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2005

NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK (CONTINUED):

The Investment Agreement, dated as of March 14, 2002, by and among The Bank of New York Trust Company, as the Depository on behalf of both the participating Michigan School District and the Michigan Municipal Bond Authority, and Wachovia Bank, as Provider.

The net proceeds from the sale of the School Improvement Bonds were loaned by the Authority to Michigan School Districts. Such Loans are to be repaid with annual set-a-side installments deposited with the Depository for investment under the Investment Agreement. Set-a-side installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) and such Permitted Investments are held by the Depository in a fiduciary capacity.

The Guaranteed Rate under this Investment Agreement (commonly referred to as guaranteed investment contract-GIC or collateralized investment agreement-CIA) is 1.5% (simple interest actual days elapsed over a 365-day year).

The Guarantor is Wachovia Bank, as guarantor of the Provider's obligations under this Investment Agreement.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$83,122	\$ 2,213,050
Investments	<u>399,352</u>
	<u><u>\$ 2,612,402</u></u>

The above amounts are reported in the financial statements as follows:

Cash - District wide	\$ 2,129,928
Fiduciary Funds	83,122
Investments - District wide	<u>399,352</u>
	<u><u>\$ 2,612,402</u></u>

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2005

NOTE 4 - LONG-TERM DEBT:

Following is a summary of the various long-term debt of the school district:

1998 Issue due in annual installments of \$70,000 to \$80,000 with interest from 4.65% to 4.80%.	\$ 230,000
1999 Issue due in annual installments of \$25,000 and \$30,000 with interest of 5.00%.	115,000
2001 Qualified Zone Academy Bonds (QZAB face amount \$1,168,097). The bonds are interest free and are repayable starting 3/14/05 in installments of \$8,097 on 3/14/05 and \$145,000 starting 3/14/06 through 3/14/13. The district is required to set aside \$97,341 beginning on 3/14/02 and each year thereafter. The sum of these amounts set aside, together with the interest earned thereon, will be sufficient to repay the aggregate principal amount of the bonds.	1,160,000
2001 general obligation bonds due in annual installments of \$70,000 to \$640,000 with interest from 3.25% to 5.50%.	12,810,000
Limited obligation (Durant) bond, due in annual installments of \$20,028 to \$4,434 through May 15, 2013, with interest of 4.76%.	55,873
Bus Loan #46535 due in annual installments of \$22,103 to \$83,850 with interest of 3.65%.	43,428
Bus Loan #46101 due in annual installments of \$22,645 to \$84,487 with interest of 4.85%.	22,645
Accumulated compensated absences	<u>156,544</u>
Total long-term debt	<u>\$14,593,490</u>

Interest expense (all funds) for the year ended June 30, 2005 was \$650,766

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2005

NOTE 4 - LONG-TERM DEBT (CONTINUED):

DEBT SERVICE REQUIREMENTS:

The annual requirements to amortize long-term debt outstanding as of June 30, 2005 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2006	\$ 438,998	\$ 670,934	\$ 1,109,932
2007	431,537	652,811	1,084,348
2008	444,646	641,461	1,086,107
2009	399,867	629,239	1,029,106
2010	395,099	620,882	1,015,981
2011-2015	2,306,799	2,887,045	5,193,844
2016-2020	3,010,000	2,248,400	5,258,400
2021-2025	3,175,000	1,435,000	4,610,000
2026-2030	3,195,000	639,750	3,834,750
2031-2035	640,000	32,000	672,000
	<u>14,436,946</u>	<u>10,457,522</u>	<u>24,894,468</u>
Accumulated compensated absences	156,544		156,544
	<u>\$14,593,490</u>	<u>\$10,457,522</u>	<u>\$25,051,012</u>

An amount of \$325,629 is available in the debt service fund to service the general obligation debt.

CHANGES IN LONG-TERM DEBT:

Following is a summary of long-term debt transactions of the district for the year ended June 30, 2005:

	<u>ACCUMULATED SICK & VACATION PAY</u>	<u>GENERAL OBLIGATION</u>
Long-term debt - July 1, 2004	\$180,584	\$14,663,330
Net decrease in accumulated compensated absences	24,040	
Amounts paid during the year:		
1998 Issue		70,000
1999 Issue		25,000
2001 Issue		70,000
Bus Loans		53,287
Durant bonds paid		8,097
Total	<u>\$156,544</u>	<u>\$14,436,946</u>

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2005

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (CONTINUED):

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine-member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2005 were 14.87%. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributes to MPERS for the years ended June 30, 2005, 2004 and 2003 were \$634,814, \$567,026 and \$617,263, respectively, equal to the required contribution for each year.

The District is not responsible for the payment of retirement benefits that is the responsibility of the State of Michigan.

Other Post-Employee Benefits:

Under the MPERS' Act, all retirees have the option of continuing health, dental and vision coverage. These benefits are not included in the pension benefit obligation referred to above.

NOTE 6 - OPERATING LEASES:

The School District leases a bus and equipment under operating lease agreements that expire at various dates, respectively. Lease expense amounted to \$40,572. At June 30, 2005, future lease payments under such leases are as follows:

June 30, 2005	\$51,555
June 30, 2006	\$51,555
June 30, 2007	\$40,572
June 30, 2008	\$33,810

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2005

NOTE 7 - RISK MANAGEMENT:

The District is exposed to risk of loss related to injuries to employees. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 8 – INTERFUND RECEIVABLES AND PAYABLES:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$3,245	\$ 336
Agency Fund		3,161
Special Revenue Fund	<u>336</u>	<u>84</u>
Total	<u><u>\$3,581</u></u>	<u><u>\$3,581</u></u>

NOTE 9 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

	<u>BALANCE July 1, 2004</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE June 30, 2005</u>
Assets Not Being Depreciated -- Land	\$ 142,260	\$ -	\$ -	\$ 142,260
Other Capital Assets:				
Land Improvements	732,618			732,618
Building and Additions	14,586,307			14,586,307
Machinery and Equipment	1,472,510	8,900		1,481,410
Transportation Equipment	<u>737,730</u>	<u>56,675</u>		<u>794,405</u>
Subtotal	17,529,165	65,575	-	17,594,740
Accumulated Depreciation:				
Land Improvements	(147,779)	(36,617)		(184,396)
Building and Additions	(1,776,415)	(265,368)		(2,041,783)
Machinery and Equipment	(830,940)	(147,848)		(978,788)
Transportation Equipment	<u>(560,882)</u>	<u>(52,558)</u>		<u>(613,440)</u>
Subtotal	(3,316,016)	(502,392)	-	(3,818,408)
Net Other Capital Assets	<u>14,213,149</u>	<u>(436,817)</u>	-	<u>13,776,332</u>
Net Capital Assets	<u><u>14,355,409</u></u>	<u><u>(436,817)</u></u>	<u><u>-</u></u>	<u><u>13,918,592</u></u>

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2005

NOTE 9 – CAPITAL ASSETS (Continued):

Depreciation for the fiscal year ended June 30, 2005 amounted to \$502,392. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 10- TRANSFERS:

Transfers between funds for the year ended June 30, 2005 were as follows:

<u>Fund</u>	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$133,000	\$ 5,000
Athletic Fund		133,000
Hot Lunch Fund	<u>5,000</u>	<u> </u>
Total Transfers	<u>\$138,000</u>	<u>\$138,000</u>

NOTE 11 – CONTINGENCIES:

The School District is currently involved in litigation with a citizen claiming violation of the freedom of information act. The School District has a potential liability of up to \$500 plus related attorney costs. The claim is currently in appeals.

No amounts for this litigation has been reflected in the Districts financial statements.

NOTE 12 – NOTE PAYABLE AND SUBSEQUENT EVENT:

On July 21, 2005, a state aid note from Tri-County Bank in the amount of 1,500,000 matured and was paid. The state aid note which was recorded as a liability at June 30, 2005 on the balance sheet had an interest rate of 2.50%.

On July 20, 2005, the District borrowed \$1,500,000 in a state aid note from Tri-County Bank. The state aid note bears interest at 2.89% and will mature on July 20, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

BROWN CITY COMMUNITY SCHOOLS
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Local sources	\$ 564,502	\$ 515,483	\$ 504,001	\$ (11,482)
State sources	7,378,189	7,542,928	7,566,056	23,128
Federal sources	367,710	357,973	362,730	4,757
Other transactions:				
Transfers from other districts	-	319	3,092	2,773
Sale of school property	-	250	250	-
Refund of prior years expenditures	-	7,955	7,955	-
Insurance reimbursement	-	-	-	-
Miscellaneous	48,951	18,924	18,299	(625)
TOTAL REVENUES	8,359,352	8,443,832	8,462,383	18,551
EXPENDITURES				
Instruction	4,482,110	4,358,260	4,341,871	16,389
Supporting services	3,584,405	3,419,578	3,331,748	87,830
Community services	54,398	40,106	40,116	(10)
TOTAL EXPENDITURES	8,120,913	7,817,943	7,713,735	104,208
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	238,439	625,889	748,648	122,759
OTHER FINANCING SOURCES (USES):				
Payments on loans	(175,410)	(148,287)	(156,379)	(8,092)
Site services	(30,000)	(21,615)	(20,845)	770
Payments to other schools	(202,800)	(195,179)	(195,179)	-
Fund transfers in	5,000	8,152	5,000	(3,152)
Fund transfers out	(198,000)	(143,000)	(133,000)	10,000
TOTAL OTHER FINANCING SOURCES (USES)	(601,210)	(499,929)	(500,403)	(474)
EXCESS (DEFICIENCY) OR REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	\$ (362,771)	\$ 125,960	248,245	\$ 122,285
FUND BALANCE - BEGINNING OF YEAR			1,419,299	
FUND BALANCE - END OF YEAR			\$ 1,667,544	

ADDITIONAL INFORMATION

BROWN CITY COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
June 30, 2005

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2004</u>
<u>ASSETS</u>		
Cash	\$ 40,990	\$ 40,990
Accounts receivable	-	-
Due from other funds	336	336
Due from other governmental units	12,514	12,514
Inventory	<u>7,679</u>	<u>7,679</u>
TOTAL ASSETS	<u>\$ 61,519</u>	<u>\$ 61,519</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 311	\$ 311
Salaries payable	2,458	2,458
Due to other funds	<u>84</u>	<u>84</u>
TOTAL LIABILITIES	<u>2,853</u>	<u>2,853</u>
 <u>FUND BALANCE</u>		
Fund balances:		
Reserved for debt service		
Unreserved:		
Undesignated	<u>58,666</u>	<u>58,666</u>
TOTAL FUND BALANCE	<u>58,666</u>	<u>58,666</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 61,519</u>	<u>\$ 61,519</u>

BROWN CITY COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2005</u>
REVENUES		
Local sources	\$ 294,860	\$ 294,860
State sources	33,439	33,439
Federal sources	<u>213,503</u>	<u>213,503</u>
TOTAL REVENUES	<u>541,802</u>	<u>541,802</u>
EXPENDITURES		
Food services	452,788	452,788
Athletic services	201,250	201,250
Fees	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	654,038	654,038
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(112,236)</u>	<u>(112,236)</u>
OTHER FINANCING SOURCES (USES)		
Fund transfers in	133,000	133,000
Fund transfers out	(5,000)	(5,000)
Bond proceeds	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	128,000	128,000
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>15,764</u>	<u>15,764</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>42,902</u>	<u>42,902</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 58,666</u></u>	<u><u>\$ 58,666</u></u>

BROWN CITY COMMUNITY SCHOOLS
BALANCE SHEET
GENERAL FUND
June 30, 2005

	<u>2005</u>
<u>ASSETS</u>	
CURRENT ASSETS:	
Cash	\$ 1,763,309
Accounts receivable	6,534
Due from other funds	3,161
Due from other governmental units	1,432,803
Investments	399,352
Prepaid expenses	27,000
TOTAL ASSETS	<u>\$ 3,632,159</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
LIABILITIES:	
Accounts payable	\$ 54,898
Notes payable	1,500,000
Interest payable	37,500
Due to other funds	252
Accrued payroll taxes	120,080
Salaries payable	251,885
Deferred revenue	-
TOTAL LIABILITIES	<u>1,964,615</u>
FUND BALANCE:	
Unreserved	
Designated for compensated absences	156,544
Designated for QZAB	399,352
Designated for insurance	27,000
Designated for building improvements	10,000
Undesignated	1,074,648
Reserved for debt service	
TOTAL FUND BALANCE	<u>1,667,544</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 3,632,159</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
LOCAL SOURCES:			
Property taxes	\$ 417,399	\$ 392,450	\$ (24,949)
Earnings on investments	34,600	49,588	14,988
Tuition and fees	17,559	17,369	(190)
Rental of facilities	344	269	(75)
Child care fees	42,016	42,981	965
Other local revenues	3,565	1,344	(2,221)
Total Local Sources	<u>515,483</u>	<u>504,001</u>	<u>(11,482)</u>
STATE SOURCES:			
Foundation grant	7,102,204	7,125,423	23,219
Drivers education	-	-	-
At Risk	190,316	190,302	(14)
Special education	134,086	134,086	-
Adult education	35,241	35,241	-
Non-plaintiff - Durant settlement	8,746	8,746	-
Gifted	163	163	-
Renaissance zone	19,295	19,295	-
Other	52,877	52,800	(77)
Total State Sources	<u>7,542,928</u>	<u>7,566,056</u>	<u>23,128</u>
FEDERAL SOURCES:			
Title I	235,666	233,436	(2,230)
Title II	60,283	60,283	-
Title V	3,160	3,160	-
IDEA	53,050	59,200	6,150
Drug free schools	-	-	-
Vocational education	-	837	-
Technology	5,814	5,814	-
Total Federal Sources	<u>357,973</u>	<u>362,730</u>	<u>4,757</u>
OTHER TRANSACTIONS			
Transfers from other districts:			
Special Education	319	3,015	2,696
Other	-	77	77
Sale of School property	250	250	-
Refund of prior years expenditures	7,955	7,955	-
Insurance reimbursement	-	-	-
Miscellaneous	18,924	18,299	(625)
Total Other transactions	<u>27,448</u>	<u>29,596</u>	<u>2,148</u>
OTHER FINANCING SOURCES:			
Transfers from other funds	8,152	5,000	(3,152)
Total Other Financing Sources	<u>8,152</u>	<u>5,000</u>	<u>(3,152)</u>
TOTAL REVENUES	<u>\$ 8,451,984</u>	<u>\$ 8,467,383</u>	<u>\$ 15,399</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
BASIC PROGRAMS:			
Elementary			
Professional salaries	\$1,042,153	\$1,034,885	\$ 7,268
Nonprofessional salaries	31,002	30,966	36
Insurance benefits	317,025	317,716	(691)
FICA	284,012	271,008	13,004
Purchased services	32,758	32,756	2
Supplies	28,247	28,242	5
Capital outlay	-	-	-
Miscellaneous	3,625	3,605	20
Total Elementary	<u>1,738,822</u>	<u>1,719,178</u>	<u>19,644</u>
High School			
Professional salaries	1,051,142	1,061,100	(9,958)
Nonprofessional salaries	26,404	26,271	133
Insurance benefits	260,051	261,811	(1,760)
FICA	256,264	255,410	854
Purchased services	53,402	53,236	166
Supplies	21,154	19,712	1,442
Capital outlay	-	-	-
Miscellaneous	3,595	3,551	44
Total High School	<u>1,672,012</u>	<u>1,681,091</u>	<u>(9,079)</u>
Preschool			
Professional salaries	12,982	12,981	1
Nonprofessional salaries	3,620	3,622	(2)
Insurance benefits	5,488	5,494	(6)
FICA	3,711	3,711	-
Purchased services	4,751	4,751	-
Supplies	4,509	4,540	(31)
Capital outlay	4,999	4,999	-
Miscellaneous	1,345	1,345	-
Total Preschool	<u>41,405</u>	<u>41,443</u>	<u>(38)</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
ADDED NEEDS:			
Special Education			
Professional salaries	\$197,400	\$197,400	\$ -
Nonprofessional salaries	54,072	53,289	783
Insurance benefits	65,750	65,118	632
FICA	57,452	56,651	801
Purchased services	214	214	-
Supplies	12,960	12,915	45
Capital outlay	230	230	-
Miscellaneous	2,958	2,933	25
Total Special Education	<u>391,036</u>	<u>388,750</u>	<u>2,286</u>
Compensatory Education			
Professional salaries	149,748	149,748	-
Nonprofessional salaries	112,335	112,358	(23)
Insurance benefits	20,316	19,194	1,122
FICA	60,923	59,723	1,200
Purchased services	35,000	35,000	-
Supplies	2,342	2,332	10
Capital outlay	-	-	-
Miscellaneous	7	7	-
Total Compensatory Education	<u>380,671</u>	<u>378,362</u>	<u>2,309</u>
Vocational Education			
Professional salaries	63,313	63,313	-
Nonprofessional salaries	7,859	7,859	-
Insurance benefits	18,579	18,090	489
FICA	15,854	15,854	-
Purchased services	2,200	2,160	40
Supplies	3,720	3,709	11
Capital outlay	-	-	-
Miscellaneous	1,300	1,290	10
Total Vocational Education	<u>112,825</u>	<u>112,275</u>	<u>550</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
ADULT/CONTINUING EDUCATION:			
Vocational Education			
Professional salaries	\$ 10,829	\$ 10,829	\$ -
Nonprofessional salaries	-	-	-
Insurance benefits	-	-	-
FICA	3,130	2,433	697
Purchased services	6,699	6,679	20
Supplies	221	221	-
Capital outlay	-	-	-
Miscellaneous	610	610	-
Total Vocational Education	<u>21,489</u>	<u>20,772</u>	<u>717</u>
TOTAL INSTRUCTION	<u>4,358,260</u>	<u>4,341,871</u>	<u>1,434</u>
SUPPORT SERVICES			
PUPIL:			
Guidance			
Professional salaries	130,704	130,574	130
Nonprofessional salaries	9,764	8,794	970
Insurance benefits	7,670	7,257	413
FICA	33,485	32,951	534
Purchased services	19,838	19,833	5
Supplies	887	867	20
Capital outlay	-	-	-
Miscellaneous	-	-	-
Total Guidance	<u>202,348</u>	<u>200,276</u>	<u>2,072</u>
Health			
Professional salaries	-	-	-
Nonprofessional salaries	-	-	-
Insurance benefits	-	-	-
FICA	-	-	-
Purchased services	200	135	65
Supplies	300	297	3
Capital outlay	-	-	-
Miscellaneous	-	-	-
Total Health	<u>500</u>	<u>432</u>	<u>68</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORT SERVICES			
PUPIL:			
Psychological			
Professional salaries	\$ -	\$ -	\$ -
Nonprofessional salaries	-	-	-
Insurance benefits	-	-	-
FICA	-	-	-
Purchased services	18,996	18,993	3
Supplies	-	-	-
Capital outlay	-	-	-
Miscellaneous	-	-	-
Total Psychological	<u>18,996</u>	<u>18,993</u>	<u>3</u>
Speech Pathology and Audiology			
Professional salaries	59,805	59,805	-
Nonprofessional salaries	-	-	-
Insurance benefits	18,052	17,446	606
FICA	13,302	13,294	8
Purchased services	-	-	-
Supplies	-	-	-
Capital outlay	-	-	-
Miscellaneous	-	-	-
Total Speech Pathology and Audiology	<u>91,159</u>	<u>90,545</u>	<u>614</u>
Other Pupil Services			
Professional salaries	-	-	-
Nonprofessional salaries	34,804	34,826	(22)
Insurance benefits	319	319	-
FICA	8,833	8,475	358
Purchased services	160	81	79
Supplies	-	-	-
Capital outlay	-	-	-
Miscellaneous	-	-	-
Total Other Pupil Services	<u>44,116</u>	<u>43,701</u>	<u>415</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORT SERVICES			
INSTRUCTIONAL STAFF:			
Improvement of Instruction			
Professional salaries	\$10,250	\$10,250	-
Nonprofessional salaries	12,744	12,334	\$ 410
Insurance benefits	118	118	-
FICA	5,178	4,977	201
Purchased services	11,651	11,650	1
Supplies	3,350	3,347	3
Capital outlay	-	-	-
Miscellaneous	-	-	-
	<u>43,291</u>	<u>42,676</u>	<u>615</u>
Total Improvement of Instruction			
Library			
Professional salaries	65,154	65,154	-
Nonprofessional salaries	21,826	21,232	594
Insurance benefits	29,286	29,479	(193)
FICA	19,588	19,230	358
Purchased services	820	813	7
Supplies	12,720	12,618	102
Capital outlay	550	515	35
Miscellaneous	-	-	-
	<u>149,944</u>	<u>149,041</u>	<u>903</u>
Total Library			

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORT SERVICES			
INSTRUCTIONAL STAFF:			
Computer Assisted Instruction			
Professional salaries	\$41,662	\$41,661	\$ 1
Nonprofessional salaries	18,454	16,674	1,780
Insurance benefits	20,687	19,116	1,571
FICA	15,705	14,911	794
Purchased services	25,560	25,560	-
Supplies	1,200	1,137	63
Capital outlay	-	-	-
Miscellaneous	-	-	-
Total Computer Assisted Instruction	<u>123,268</u>	<u>119,059</u>	<u>4,209</u>
GENERAL ADMINISTRATION:			
Board of Education			
Professional salaries	5,335	4,600	735
Nonprofessional salaries	-	-	-
Insurance benefits	-	-	-
FICA	-	-	-
Purchased services	38,855	35,733	3,122
Supplies	2,500	2,432	68
Capital outlay	-	-	-
Miscellaneous	4,536	4,405	131
Total Board of Education	<u>51,226</u>	<u>47,170</u>	<u>4,056</u>
Executive Administration			
Professional salaries	112,286	112,197	89
Nonprofessional salaries	54,383	54,382	1
Insurance benefits	34,659	33,664	995
FICA	145,437	146,101	(664)
Purchased services	16,429	15,216	1,213
Supplies	9,860	9,751	109
Capital outlay	1,495	1,495	-
Miscellaneous	2,483	2,697	(214)
Total Executive Administration	<u>377,032</u>	<u>375,503</u>	<u>1,529</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORT SERVICES			
GENERAL ADMINISTRATION:			
Grant Writer			
Professional salaries	-	-	-
Nonprofessional salaries	\$ 2,625	\$ 2,625	-
Insurance benefits	-	-	-
FICA	573	573	-
Purchased services	-	-	-
Supplies	-	-	-
Capital outlay	-	-	-
Miscellaneous	-	-	-
Total Grant Writer	<u>3,198</u>	<u>3,198</u>	<u>-</u>
SCHOOL ADMINISTRATION:			
Office of the Principal			
Professional salaries	179,291	179,290	\$ 1
Nonprofessional salaries	91,018	94,479	(3,461)
Insurance benefits	46,862	45,622	1,240
FICA	87,726	87,847	(121)
Purchased services	41,776	41,057	719
Supplies	15,470	14,913	557
Capital outlay	-	-	-
Miscellaneous	300	96	204
Total Office of the Principal	<u>462,443</u>	<u>463,304</u>	<u>(861)</u>
BUSINESS:			
Fiscal Services			
Professional salaries	-	-	-
Nonprofessional salaries	83,229	83,228	1
Insurance benefits	18,714	18,378	336
FICA	30,103	28,476	1,627
Purchased services	1,500	1,259	241
Supplies	1,700	1,654	46
Capital outlay	-	-	-
Miscellaneous	240	240	-
Total Fiscal Services	<u>135,486</u>	<u>133,235</u>	<u>2,251</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORT SERVICES			
BUSINESS:			
Other Business Services			
Professional salaries	-	-	-
Nonprofessional salaries	-	-	-
Insurance benefits	-	-	-
FICA	-	-	-
Purchased services	\$ 6,063	\$ 6,063	-
Supplies	-	-	-
Capital outlay	-	-	-
Miscellaneous	7,233	7,807	\$ (574)
Interest	64,626	63,727	899
Total Other Business Services	<u>77,922</u>	<u>77,597</u>	<u>325</u>
OPERATION/MAINTENANCE			
Professional salaries	66,057	66,057	-
Nonprofessional salaries	279,728	252,986	26,742
Insurance benefits	29,816	29,272	544
FICA	87,745	78,706	9,039
Purchased services	197,749	188,388	9,361
Supplies	301,278	296,589	4,689
Capital outlay	11,057	11,057	-
Miscellaneous	-	-	-
TOTAL OPERATION/MAINTENANCE	<u>973,430</u>	<u>923,055</u>	<u>50,375</u>
PUPIL TRANSPORTATION			
Professional salaries	39,030	38,125	905
Nonprofessional salaries	181,172	171,197	9,975
Insurance benefits	34,324	34,170	154
FICA	53,448	47,538	5,910
Purchased services	43,995	43,224	771
Supplies	73,500	73,065	435
Capital outlay	56,675	56,675	-
Miscellaneous	1,300	902	398
TOTAL PUPIL TRANSPORTATION	<u>483,444</u>	<u>464,896</u>	<u>18,548</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORT SERVICES			
SUPPORT SERVICES TECHNOLOGY			
Professional salaries	-	-	-
Nonprofessional salaries	\$ 86,746	\$ 86,110	\$ 636
Insurance benefits	19,146	18,754	392
FICA	29,076	27,415	1,661
Purchased services	28,405	28,394	11
Supplies	6,000	5,993	7
Capital outlay	12,402	12,401	1
Miscellaneous	-	-	-
TOTAL SUPPORT SERVICES TECHNOLOGY	<u>181,775</u>	<u>179,067</u>	<u>2,708</u>
TOTAL SUPPORT SERVICES	<u>3,419,578</u>	<u>3,331,748</u>	<u>87,830</u>
COMMUNITY SERVICES:			
Custody and Care of Children			
Professional salaries	-	-	-
Nonprofessional salaries	29,976	29,986	(10)
Insurance benefits	-	-	-
FICA	6,417	6,418	(1)
Purchased services	1,180	1,180	-
Supplies	557	556	1
Capital outlay	-	-	-
Miscellaneous	502	502	-
Total Custody and Care of Children	<u>38,632</u>	<u>38,642</u>	<u>(10)</u>
Other Community Services			
Professional salaries	-	-	-
Nonprofessional salaries	-	-	-
Insurance benefits	-	-	-
FICA	-	-	-
Purchased services	1,000	1,000	-
Supplies	474	474	-
Capital outlay	-	-	-
Miscellaneous	-	-	-
Total Other Community Services	<u>1,474</u>	<u>1,474</u>	<u>-</u>
TOTAL COMMUNITY SERVICES	<u>40,106</u>	<u>40,116</u>	<u>(20)</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
OTHER FINANCING USES:			
Transfers to other funds	\$ 143,000	\$ 133,000	\$ 10,000
Site services	21,615	20,845	770
Payments to other schools	195,179	195,179	-
Payments on Loans	<u>148,287</u>	<u>156,379</u>	<u>(8,092)</u>
TOTAL OTHER FINANCING USES	508,081	505,403	2,678
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u><u>\$8,326,024</u></u>	<u><u>\$8,219,138</u></u>	<u><u>\$ 91,922</u></u>

BROWN CITY COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
SPECIAL REVENUE FUND
June 30, 2005

	<u>FOOD SERVICE</u>	<u>ATHLETICS</u>	<u>TOTAL 2005</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 36,752	\$ 4,238	\$ 40,990
Accounts Receivable		-	-
Due from other funds	336		336
Due from other governmental units	12,514		12,514
Inventory	<u>7,679</u>		<u>7,679</u>
TOTAL ASSETS	<u><u>\$ 57,281</u></u>	<u><u>\$ 4,238</u></u>	<u><u>\$ 61,519</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES:			
Accounts payable	\$ 1	\$ 310	\$ 311
Salaries payable	2,458		2,458
Due to other funds	<u>84</u>		<u>84</u>
TOTAL LIABILITIES	<u>2,543</u>	<u>310</u>	<u>2,853</u>
FUND BALANCE:			
Unreserved			
Undesignated	<u>54,738</u>	<u>3,928</u>	<u>58,666</u>
TOTAL FUND BALANCE	<u>54,738</u>	<u>3,928</u>	<u>58,666</u>
TOTAL LIABILITIES & FUND BALANCE	<u><u>\$ 57,281</u></u>	<u><u>\$ 4,238</u></u>	<u><u>\$ 61,519</u></u>

BROWN CITY COMMUNITY SCHOOLS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUND
June 30, 2005

	<u>FOOD SERVICES</u>	<u>ATHLETICS</u>	<u>TOTAL 2005</u>
REVENUES:			
Local sources	\$ 225,947	\$ 68,913	\$ 294,860
State sources	33,439		33,439
Federal sources	213,503		213,503
TOTAL REVENUES	<u>472,889</u>	<u>68,913</u>	<u>541,802</u>
EXPENDITURES:			
Professional Salaries	44,025		44,025
Nonprofessional salaries	102,445		102,445
Insurance benefits	5,303		5,303
FICA	39,462		39,462
Commodities	251,962		251,962
Capital outlay	1,240		1,240
Athletic activities		201,250	201,250
Travel & workshops	5,468		5,468
Other expenses	2,883		2,883
TOTAL EXPENDITURES	452,788	201,250	654,038
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>20,101</u>	<u>(132,337)</u>	<u>(112,236)</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in		133,000	133,000
Fund transfers out	(5,000)		(5,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(5,000)</u>	<u>133,000</u>	<u>128,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>15,101</u>	<u>663</u>	<u>15,764</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>39,637</u>	<u>3,265</u>	<u>42,902</u>
FUND BALANCE AT END OF YEAR	<u>\$ 54,738</u>	<u>\$ 3,928</u>	<u>\$ 58,666</u>

BROWN CITY COMMUNITY SCHOOLS
BALANCE SHEET
DEBT SERVICE FUND
June 30, 2005

	<u>2005</u>
<u>ASSETS</u>	
Cash	<u>\$ 325,629</u>
TOTAL ASSETS	<u><u>\$ 325,629</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>	
 FUND BALANCE:	
Reserved for debt service	<u>\$ 325,629</u>
 TOTAL LIABILITIES & FUND BALANCE	<u><u>\$ 325,629</u></u>

BROWN CITY COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>2001 ISSUE</u>	<u>DURANT DEBT</u>	<u>TOTAL 2005</u>
REVENUES			
Local Sources:			
Property taxes	\$ 706,102		\$ 706,102
Earnings on investments	<u>6,183</u>		<u>6,183</u>
Total Local Sources	<u>712,285</u>	<u>-</u>	<u>712,285</u>
State Sources			<u>-</u>
TOTAL REVENUES	<u>712,285</u>	<u>-</u>	<u>712,285</u>
EXPENDITURES			
Debt Service:			
Principal repayment	70,000		70,000
Interest and other fiscal charges	<u>647,085</u>		<u>647,085</u>
TOTAL EXPENDITURES	<u>717,085</u>	<u>-</u>	<u>717,085</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,800)	-	(4,800)
FUND BALANCES:			
Beginning of Year	<u>330,429</u>		<u>330,429</u>
End of Year	<u>\$ 325,629</u>	<u>-</u>	<u>\$ 325,629</u>

BROWN CITY COMMUNITY SCHOOLS
AGENCY FUND
SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BALANCE AT</u> <u>6/30/2004</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE AT</u> <u>6/30/2005</u>
Art	\$ 306	\$ 575	\$ 81	\$ 800
Athletic CC	84	1,422	1,389	117
Athletic Baseball	1,160	3,515	4,295	380
Athletic Boys Varsity Basketball	1,697	12,873	12,405	2,165
Athletic Elementary Girls Basketball	1,218	6,466	6,567	1,117
Athletic Football	1,834	2,150	823	3,161
Athletic Girls Varsity Track	840	3,251	3,414	677
Athletic Golf	(198)	750	627	(75)
Athletic Sideline Cheer	2,613	23,370	25,212	771
Athletic Varsity Softball	2,779	5,543	3,966	4,356
Athletic Varsity Volleyball	94	5,581	5,362	313
Athletic Wrestling	213	1,138	1,180	171
Autoshop Pop Machine	2,033	4,972	5,304	1,701
Band	(60)	8,011	7,951	-
Bus Garage	381	163	199	345
Chorus	(425)	404	-	(21)
Class of 1974 - 2002	1,737	-	35	1,702
Class of 2004	246			246
Class of 2005	2,722	25,027	24,831	2,918
Class of 2006	5,666	8,259	12,080	1,845
Class of 2007	3,939	3,393	2,630	4,702
Class of 2008	2,564	4,991	3,061	4,494
Class of 2009	2,417	6,273	5,659	3,031
Class of 2010	396	2,961	1,785	1,572
Class of 2011		700	397	303
Computer Club	125	-	-	125
Croswell Learning Center	20	1,028	1,000	48
D. Muxlow - Principal	2,050	59,926	56,489	5,487
D. Muxlow Pop Machine	1,085	1,889	2,297	677
Drama Club	1,646	-	-	1,646
Elementary Knights of Columbus	1,067	-	1,000	67
Equestrian Team	225	100	259	66
High School Gifts & Flowers	400	382	341	441
High School Knights of Columbus	300	218		518
High School Quiz Bowl	711	1125	1693	143
High School Student Council	807	3978	3921	864

BROWN CITY COMMUNITY SCHOOLS
AGENCY FUND
SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BALANCE AT</u> <u>6/30/2004</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE AT</u> <u>6/30/2005</u>
J. Steigerwald Candy	7,348	10,082	15,659	1,771
Library Fines	186	158	154	190
Mrs. Hensels Class	45			45
National Honor Society	142	4,425	4,534	33
Playground Equipment	7,726			7,726
Project Graduation	796			796
PTO	5,395	9,608	12,816	2,187
Reading Incentive	-	370	370	-
SADD	852	949	760	1,041
Soccer	1,155	-	-	1,155
Spanish Class	13	-	-	13
Steigerwald - Principal	9,583	22,330	15,506	16,407
Yearbook	363	9,876	8,515	1,724
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL AGENCY FUND	<u>\$ 76,296</u>	<u>\$ 258,232</u>	<u>\$ 254,567</u>	<u>\$ 79,961</u>

BROWN CITY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
June 30, 2005

Date of Issue: July 1, 1998

Original Amount of Issue: \$500,000

Purpose of Issue: Limited tax general obligation bonds - Energy Conservation

Interest Rate	Fiscal Year	Annual Maturity June 1	Semi-Annual Interest Payments		Total Fiscal Year Requirements
			June 1	December 1	
4.70%	2006	\$ 75,000	\$ 5,464	\$ 5,464	\$ 85,928
4.75%	2007	75,000	3,701	3,701	82,402
4.80%	2008	80,000	1,920	1,920	83,840
		<u>\$ 230,000</u>	<u>\$ 11,085</u>	<u>\$ 11,085</u>	<u>\$ 252,170</u>

BROWN CITY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
June 30, 2005

Date of Issue: November 24, 1999

Original Amount of Issue: \$250,000

Purpose of Issue: Limited tax general obligation bonds

Interest Rate	Fiscal Year	Annual Maturity May 1	Semi-Annual Interest Payments		Total Fiscal Year Requirements
			May 1	November 1	
5.00%	2006	\$ 25,000	\$ 2,875	\$ 2,875	\$ 30,750
5.00%	2007	30,000	2,250	2,250	34,500
5.00%	2008	30,000	1,500	1,500	33,000
5.00%	2009	30,000	750	750	31,500
		<u>\$ 115,000</u>	<u>\$ 7,375</u>	<u>\$ 7,375</u>	<u>\$ 129,750</u>

BROWN CITY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
June 30, 2005

Date of Issue: March 14, 2001

Original Amount of Issue: \$ 1,168,097

Purpose of Issue: Limited tax general obligation bonds (Qualified Zone Academy Bonds)

<u>Fiscal Year</u>	<u>Annual Payment March 14</u>	<u>Total Fiscal Year Requirements</u>
2006	\$ 145,000	\$ 145,000
2007	145,000	145,000
2008	145,000	145,000
2009	145,000	145,000
2010	145,000	145,000
2011	145,000	145,000
2012	145,000	145,000
2013	145,000	145,000
	<u>\$ 1,160,000</u>	<u>\$ 1,160,000</u>

BROWN CITY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
June 30, 2005

Date of Issue: October 29, 2001

Original Amount of Issue: \$ 12,900,000

Purpose of Issue: Erecting, furnishing and equipping additions to the High School and the existing Elementary School; Partially remodeling, re-furnishing and re-equipping the High School and the existing Elementary School; Acquiring and installing new technology; Improving outdoor physical education facilities; Developing and improving sites.

Interest Rate	Fiscal Year	Annual Maturity May 1	Semi-Annual Interest Payments		Total Fiscal Year Requirements
			May 1	November 1	
3.25%	2006	\$ 130,000	\$ 321,310	\$ 321,310	\$ 772,620
3.40%	2007	155,000	319,197	319,198	793,395
3.60%	2008	185,000	316,562	316,563	818,125
3.75%	2009	220,000	313,232	313,233	846,465
3.85%	2010	245,000	309,107	309,108	863,215
3.95%	2011	285,000	304,391	304,392	893,783
5.25%	2012	325,000	298,762	298,763	922,525
5.25%	2013	355,000	290,231	290,231	935,462
5.50%	2014	425,000	280,912	280,913	986,825
5.50%	2015	465,000	269,225	269,225	1,003,450
5.50%	2016	520,000	256,437	256,438	1,032,875
5.50%	2017	590,000	242,137	242,138	1,074,275
5.50%	2018	630,000	225,912	225,913	1,081,825
5.50%	2019	635,000	208,587	208,588	1,052,175
5.00%	2020	635,000	191,125	191,125	1,017,250
5.00%	2021	635,000	175,250	175,250	985,500
5.00%	2022	635,000	159,375	159,375	953,750
5.00%	2023	635,000	143,500	143,500	922,000
5.00%	2024	635,000	127,625	127,625	890,250
5.00%	2025	635,000	111,750	111,750	858,500
5.00%	2026	635,000	95,875	95,875	826,750
5.00%	2027	640,000	80,000	80,000	800,000
5.00%	2028	640,000	64,000	64,000	768,000
5.00%	2029	640,000	48,000	48,000	736,000
5.00%	2030	640,000	32,000	32,000	704,000
5.00%	2031	640,000	16,000	16,000	672,000
		<u>\$ 12,810,000</u>	<u>\$ 5,200,502</u>	<u>\$ 5,200,513</u>	<u>\$ 23,211,015</u>

BROWN CITY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
June 30, 2005

Date of Issue: November 24, 1999

Original Amount of Issue: \$ 87,456

Purpose of Issue: Durant issue; School Improvements

Interest Rate	Fiscal Year	Annual Maturity May 15	Annual Interest Payments May 15	Total Fiscal Year Requirements
4.76%	2006	\$ 20,028	\$ 8,953	\$ 28,981
4.76%	2007	4,434	1,707	6,141
4.76%	2008	4,646	1,496	6,142
4.76%	2009	4,867	1,274	6,141
4.76%	2010	5,099	1,043	6,142
4.76%	2011	5,342	800	6,142
4.76%	2012	5,596	546	6,142
4.76%	2013	5,861	278	6,139
		<u>\$ 55,873</u>	<u>\$ 16,097</u>	<u>\$ 71,970</u>

This bond, including interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, Hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository. A revised payment schedule was issued on March 24, 2003.

BROWN CITY COMMUNITY SCHOOLS
SCHEDULE OF CONTRACTS PAYABLE
June 30, 2005

Bus Contracts Payable:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 43,970	\$ 2,683	\$ 46,653
2007	<u>22,103</u>	<u>807</u>	<u>22,910</u>
	<u>\$ 66,073</u>	<u>\$ 3,490</u>	<u>\$ 69,563</u>

BROWN CITY COMMUNITY SCHOOL DISTRICT

ADDITIONAL REPORTS REQUIRED
BY OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2005

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ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

August 19, 2005

Board of Education
Brown City Community Schools
Brown City, Michigan 48416

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown City Community Schools as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Brown City Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Brown City Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

August 19, 2005

To the Board of Education
Brown City Community Schools
Brown City, MI 48416

COMPLIANCE

We have audited the compliance of Brown City Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. Brown City Community Schools' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal program is the responsibility of Brown City Community Schools' management. Our responsibility is to express an opinion on Brown City Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Brown City Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Brown City Community Schools' compliance with those requirements.

In our opinion, Brown City Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2005.

INTERNAL CONTROL OVER COMPLIANCE

The management of Brown City Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Brown City Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Education
Brown City Community Schools
August 19, 2005

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown City Community Schools as of and for the year ended June 30, 2005, and have issued our report thereon dated August 19, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Brown City Community Schools basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the board of education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 6/30/2004	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE 6/30/2005
ECIA Title I - regular ECIA Title I - C/O	84.010	415300304	\$ 228,768	\$ 6,803	\$ 216,874	\$ 18,697	\$ 11,894	\$ -
	84.010	515300405	228,768			184,155	221,542	37,387
			457,536	6,803	216,874	202,852	233,436	37,387
Title V	84.298	502500405	3,160			3,160	3,160	-
Technology Literacy Challenge	84.318	542900405	5,814			5,814	5,814	-
Title IIA - Class Size Reduction	84.367	505200405	64,207			60,283	60,283	-
Total Passed Through Michigan Dept. of Education			530,717	6,803	216,874	272,109	302,693	37,387

U.S. DEPARTMENT OF EDUCATION:

Passed through Michigan Dept. of Education:

BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 6/30/2004	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE 6/30/2005
TRANSFERS FROM OTHER GOVERNMENTAL UNITS								
Passed Through the Sanilac Intermediate School District:								
P.L. 94-142 Flow-through (IDEA)	84.027	30450/040450	\$ 82,250	\$ 20,187	\$ 82,250	\$ 20,187	\$ -	\$ -
P.L. 94-142 Flow-through (IDEA)	84.027	050450-0405	59,200			59,200	59,200	
			141,450	20,187	82,250	79,387	59,200	-
Passed Through the Tuscola Intermediate School District:								
Voc Ed Basic Grants to States	84.048	033350/401511	837			837	837	
TOTAL TRANSFERS FROM OTHER GOVERNMENTAL UNITS			142,287	20,187	82,250	80,224	60,037	-
U.S. DEPARTMENT OF AGRICULTURE:								
Passed through Michigan Dept. of Education:								
National School Lunch	10.555		142,489	16,358		158,847	142,489	-
Fruit and Vegetable Pilot Program	10.555	0421FV05	19,570	(3,747)		6,748	19,570	9,075
National School Lunch Breakfast	10.553		33,900	3,965		37,865	33,900	-
Food Distribution Entitlement	10.550		16,094			16,094	16,094	-
Bonus Commodities	10.565		1,450			1,450	1,450	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			213,503	16,576	-	221,004	213,503	9,075
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 886,507	\$ 43,566	\$ 299,124	\$ 573,337	\$ 576,233	\$ 46,462

BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Brown City Community Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization* and reconciles with the amounts presented in the basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. ECIA Title I, CFDA #84.010 and P.L. 94-142 Flow-through (IDEA), CFDA #84.027 were audited as major programs representing 50.78% of federal expenditures.
2. The threshold for distinguishing Type A and Type B programs was \$300,000.
3. Management has utilized the Grant Section Auditor's Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.

NOTE 3 – SUMMARY OF FEDERAL EXPENDITURES

Federal expenditures are reported as revenue in the following funds in the basic financial statements:

General Fund	\$362,730
Special Revenue Fund	<u>213,503</u>
Subtotal	\$576,233

BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unqualified*

- Material weakness(es) identified: _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)

84.010
84.027

Name of Federal Program or Cluster

Title I
P.L. 94-142 Flow-through (IDEA)

Dollar threshold used to distinguish between type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN
SCHEDULE OF PRIOR AUDIT FINDINGS

NONE

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
Certified Public Accountants



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

August 19, 2005

To the Board of Education
Brown City Community Schools
Brown City, Michigan 48416

In planning and performing our audit of the financial statements of Brown City Community Schools for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 19, 2005, on the financial statements of Brown City Community Schools.

FDIC Insurance Limits

While conducting the audit of cash we noted the school district had cash on deposit in excess of the federally insured limit in a financial institution. This presents a potential for losses to the district in the event of bank or institutional failure. We strongly suggest that management closely monitor cash balances and transfer excess balances to other banks, where possible, to reduce the potential for loss of monetary amounts in excess of the federally insured level.

New Rules For §403(B) Plans

Proposed regulations were issued last year that require a written plan document for §403(b) plans. The plan must contain all the material terms and conditions for eligibility, benefits, contribution limitations, the annuity contracts or accounts available or used under the plan for funding, and the time and form under which benefit payments will be made. There is no requirement that a single document must be used. This rule applies for tax years beginning after 2005 to assure you comply

To the Board of Education
Brown City Community Schools

August 19, 2005
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We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various schools district personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Brown City Community Schools, management and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**